

Message Text

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ACTION EUR-25

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FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 6598

INFO AMEMBASSY MOSCOW

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LIMITED OFFICIAL USE BELGRADE 2938

E.O. 11652: N/A

TAGS: ECON, ETRD, PFOR, YO, UR

SUBJECT: GOY-SOVIET ECONOMIC RELATIONS: \$540 MILLION SOVIET
CREDIT TO YUGOSLAVIA

REF: BELGRADE 2309

1. BEGIN SUMMARY: RECENT CONVERSATIONS WITH WELL-PLACED EMBASSY
SOURCE TEND CONFIRM THAT RESULTS OF JUNE 12 - 15 MIXED SOVIET-
YUGOSLAV ECONOMIC COMMITTEE MEETING IN MOSCOW WERE LESS THAN
SPECTACULAR. PUBLIC PRONOUNCEMENTS REPORTED FAVORABLE GROWTH
IN ECONOMIC RELATIONS, INCLUDING TRADE AND INDUSTRIAL COOPERATION.
HOWEVER, THERE STILL REMAIN SERIOUS OBSTACLES TO DRAW DOWN ON
\$540 MILLION SOVIET CREDIT EXTENDED LAST NOVEMBER. TO DATE THREE
PROJECTS HAVE BEEN CONCLUDED AND MIXED ECONOMIC COMMITTEE APPEARS
TO HAVE MADE LITTLE OR NO PROGRESS ON IMPLEMENTATION OF
ADDITIONAL PROJECTS. END SUMMARY.

2. AS REPORTED REFTTEL, VICE PRESIDENT SIROTKOVIC HEADED GOY
DELEGATION TO MOSCOW TALKS. MAIN AGENDA ITEM WAS DRAWN DOWN ON
\$540 MILLION SOVIET CREDIT APPROVED LAST NOVEMBER. THUS FAR,
NEGOTIATIONS HAVE BEEN COMPLETED ON THREE PROJECTS ONLY VALUED AT
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\$43 MILLION, THERMO ELECTRIC PLANTS IN MACEDONIA AND

CROATIA AND COKING PLANT IN BOSNIA. IT IS UNKNOWN WHEN THESE PROJECTS WILL BEGIN. PRESS REPORTS INDICATE THAT 12 NEW PROJECTS WERE DISCUSSED.

3. MRS. DRAGINJA ARSIC, SPECIALIST FOR ECONOMIC AFFAIRS OF SOCIALIST COUNTRIES OF THE INSTITUTE FOR INTERNATIONAL POLITICS AND ECONOMICS, IDENTIFIED FOLLOWING AS PRINCIPAL IMPEDIMENTS TO EARLY DRAW DOWN OF THE CREDIT: (A) YUGOSLAVIA NOT PREPARED TO NEGOTIATE PROJECTS ON DIRECT GOVERNMENT TO GOVERNMENT BASIS. SOVIETS MUST BE PREPARED TO DEAL WITH YUGOSLAV ENTERPRISES DIRECTLY OR WITH REPS OF INDUSTRY ASSOCIATIONS OR CHAMBER OF ECONOMY. SOVIET INFLEXIBILITY HAS SLOWED THINGS CONSIDERABLY. (B) PRICING. CREDIT AMOUNT IS BASED ON "WORLD PRICES" IN EFFECT AT TIME OF AGREEMENT. REVALUATION OF RUBLE HAS CAUSED PRICE INCREASE, WHICH YUGOSLAVS FIND UNACCEPTABLE. THERE IS NO EVIDENCE THAT MOSCOW TALKS SOLVED THIS PROBLEM. (C) YUGOSLAVS ARE SLOW IN SUBMITTING TECHNICAL AND DESIGN SPECS. ON INDIVIDUAL PROJECTS. (D) LACK OF LOCAL FINANCING. SOVIETS PROVIDING LOCAL COST ASSISTANCE ON A CASE BY CASE BASIS.

4. LITTLE PROGRESS MADE ON 12 ADDITIONAL PROJECTS REPORTEDLY DISCUSSED. ARSIC COMMENTED THAT SOVIETS HAVE ALREADY MADE ALLOCATIONS FOR 1974 BUDGET AND THEREIS LITTLE HOPE THAT ANY NEW PROJECTS WILL BE REALIZED BEFORE 1975, IT THEN. THEREFORE, PROSPECTS FOR UTILIZATION OF CREDIT WITHIN FIVE TO SIX YEAR TIME FRAME STIPULATEDIN AGREEMENT ARE NOT GOOD.

5. MIXED COMMITTEE DID AGREE ON FOLLOWING: (A) TRADE IN BOTH DIRECTIONS SHOULD TOTAL \$700 MILLTION FOR 1973, AN INCREASE OF 10 PERCENT OVER LAST YEAR. (B) PLANNED INCREASE IN INDUSTRIAL COOPERATION IN AGRICULTURE, INDUSTRIAL CONSTRUCTION AND MACHINE BUILDING - A MUTUAL EXCHANGE OF \$200 MILLION, UNSPECIFIED. (C) LONG TERM DELIVERY OF RAW MATERIALS. (D) JOINT CIVIL ENGINEERING PROJECTS IN THIRD COUNTRIES. (E) PARTICIPATION OF YUGOSLAV ENTERPRISES IN HOTEL CONSTRUCTION AT BLACK SEA, INCLUDING 2,000 BED COMPLEX AT YALTA.
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